

## Message Text

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INFO AMEMBASSY BONN

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US MISSION OECD PARIS

C O N F I D E N T I A L TOKYO 13181

LIMDIS GREENBACK

PASS TREASURY AND FEDERAL RESERVE

3.OM 11652: GDS

TAGS: EFIN, JA

SUBJ: MOF VMIN YOSHIDA COMMENTS ON RECENT WASHINGTON MEETINGS AND  
RELATED MATTERS

1. CONSIDERABLY MORE PROGRESS WAS MADE IN DEALING WITH A  
SIDE RANGE OF MATTERS DURING THE COUSE OF THE RECENT IMF/IBRD  
ANNUAL MEETINGS THAN MOF VMIN YOSHIDA HAD ANTICIPATED. FOLLOW-  
ING ARE HIS COMMENTS FO FINATT ON CURRENT INTERNATIONAL  
FINANCIAL MATTERS.

2. FUTURE EXCHANGE RATE REGIME REMAINS THE PRINCIPAL OUT-  
STANDING AND UNSETTLED ISSUE. HE BELIEVES THAT BY JANUARY  
SOME SORT OF COMPROMISE LANGUAGE COULD BE DEVELOPED TO SATISFY  
ALL. THE PRINCIPAL DIFFERENCE BETWEEN THE FRENCH AND U.S.  
VIEWS WAS PHILOSOPHICAL. YOSHIDA SAID THAT FUNDAMENTALLY  
JAPAN PREFERS FIXED RATES AND, THEREFORE, IS CLOSER TO  
THE FRENCH POSITION. HOWEVER, ON THE PRACTICAL SIDE  
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JAPAN DOES NOT THINK IT CAN MOVE BACK TO A FIXED RATE  
REGIME IN VIEW OF THE ECONOMIC UNCERTAINTIES AT THIS  
TIME. NECESSARY CONDITIONS FOR FIXED RATES WOULD INCLUDE  
(A) STABILIZING THE RATES OF INFLATION IN THE INDUSTRIAL

COUNTRIES, AND (B) RESOLVING THE ENERGY SUPPLY ISSUE. YOSHIDA NOTED THE DIFFICULTY FOR ANY COUNTRY IN ADJUSTING ITS EXCHANGE RATE ONCE IT HAD A FIXED PAR VALUE. HE RECALLED THE PAST UNPLEASANT TALKS WHEN JAPAN HAD BEN ASKED TO APPRECIATE ITS EXCHANGE RATE AGAINST THE DOLLAR.

3. GOLD WAS ONE OF THE TOPICS ON WHICH AGREEMENT WAS REACHED. NEVERTHELESS, YOSHIDA BELIEVED THAT THERE WERE CONSIDERABLE TECHNICAL PROBLEMS WHICH MIGHT PROVE DIFFICULT TO RESOLVE. HE NOTED THE CONFLICT BETWEEN A DESIRE TO MAXIMIZE THE VALUE OF GOLD HELD BY THE IMF AND THE VARIOUS INTERESTS OF COUNTRIES WHICH HOLD WIDELY VARYING AMOUNTS OF GOLD.

4. INTERNATIONAL ROLE OF YEN WOULD NEVER APPROACH THAT OF THE U.S. DOLLAR. YOSHIDA STRESSED THAT JAPAN DOES NOT WANT TO ASSUME THE BURDEN OF A RESERVE CURRENCY COUNTRY. HE ACKNOWLEDGED THAT THIS DID NOT NECESSARILY PREVENT WIDER USE OF THE YEN AS A TRANSACTION CURRENCY AND NOTED THAT JAPAN IS GRADUALLY MOVING TOWARDS DENOMINATING AND FINANCING A SOMEWHAT LARGER PORTION OF ITS TRADE IN YEN.

5. THE SUMMIT MEETING WILL EVIDENTLY NOT INCLUDE ANY DISCUSSION OF INTERNATIONAL MONETARY PROBLEMS. YOSHIDA VIEWED THE SUMMIT MEETING LIKE A STAR IN THE SKY, SOMETHING THAT PROVIDES ASSURANCE AND COMFORT BUT DOES NOT NECESSARILY HAVE TO BE REACHED. HE BELIEVED THAT DISCUSSIONS OF UNRESOLVED MATTERS SHOULD BE DEALT WITH AT LOWER LEVELS AND THE PROSPECT OF A SUMMIT MEETING WAS A USEFUL REMINDER FOR OFFICIALS TO REACH AGREEMENT.

6. ASSISTANCE TO DEVELOPING COUNTRIES WAS AN IMPORTANT TOPIC AND DR. KISSINGER ALSO DEALT EXTENSIVELY WITH THAT IN HIS UN SPEECH. PRESIDENT MCNAMARA'S PROPOSALS FOR THE IBRD WERE DESCRIBED AS "TOO AMBITIOUS" BY YOSHIDA. HE DID NOT OBJECT TO THE DIRECTION OF THE BANK'S LENDING

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EFFORTS BUT HE CONSIDERED THE MAGNITUDE OF LENDING ENVISAGED BY MCNAMARA AS JUST TOO BIG. THERE WERE SEVERAL IDEAS PROPOSED BY DR. KISSINGER, SUCH AS INCREASED USE OF IBRD/IMF RESOURCES WHICH MOF COULD SUPPORT. THE MINISTRY WAS GIVING CAREFUL CONSIDERATION TO ALL OF THE PROPOSALS MADE IN THE SEPTEMBER SPEECH. NEVERTHELESS, THEY ALSO APPEAR "TOO AMBITIOUS" IN VIEW OF BUDGET DEFICITS AND FINANCIAL DEMANDS ON FINANCE MINISTRIES IN ALL THE CREDITOR COUNTRIES. JAPAN'S BUDGET WAS ALREADY BEING OVERSTRAINED WITH AN ADDITIONAL BORROWING REQUIREMENT OF YEN THREE TRILLION THIS FISCAL YEAR. THEREFORE, REALISTICALLY JAPAN COULD NOT SHOULDER LARGE ADDITIONAL FINANCIAL BURDENS.

HE SPECIFICALLY MENTIONED THAT JAPAN WAS OPPOSED TO THE "THIRD WINDOW."

7. LDC'S DID NOT IN GENERAL REQUEST JAPAN TO QUICKLY REFLATE ITS ECONOMY IN ORDER TO HELP REVIVE WORLD TRADE, ACCORDING TO MR. YOSHIDA. EVEN THE ASEAN COUNTRIES DID NOT RAISE THIS ISSUE IN THEIR BILATERAL TALKS WITH MOF.

8. RECENT MINISTERIAL TALKS IN KOREA WERE LOW-KEY AND WENT SMOOTHLY, ACCORDING TO YOSHIDA WHO ATTENDED FOR MOF. JAPANESE PRESS MUCH EXAGGERATED SPECIFIC KOREAN REQUESTS FOR CREDITS. YOSHIDA SAID THAT THE SUBJECT WAS NOT EVEN ON THE AGENDA AS IT HAD ALREADY BEEN DEALT WITH PRIOR TO THE MEETING. JAPAN MADE NO CONCRETE PROMISES TO PROVIDE FINANCIAL ASSISTANCE TO MEET KOREA'S ANTICIPATED \$2 BILLION DEFICIT THIS YEAR. THE KOREANS HAVE URGED THAT SOME GOVERNMENT AID BE GIVEN NOW RATHER THAN LATER IN VIEW OF THOSE DIFFICULTIES. JAPAN INSISTED ON CONTINUING THE PRIOR AGREEMENT WHEREBY ITS ASSISTANCE TO KOREA IS BEING SHIFTED FROM GOVERNMENT TO PRIVATE CREDITS.

9. AN INTERNATIONAL CAPITAL MARKET WAS BEING FOSTERED VERY SLOWLY BY THE MINISTRY OF FINANCE. HOWEVER, IN VIEW OF THE LACK OF EXPERIENCE BY JAPANESE INVESTORS AND THE SMALL SIZE OF THE MARKET, MOF WAS TAKING A VERY CAUTIOUS AND SLOW APPROACH IN DEVELOPING IT. THE CONFIDENTIAL

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PRESENT POLICY IS TO PERMIT ONLY "STRONG BORROWERS" TO ISSUE YEN BONDS IN JAPAN. THE MAIN CRITERION IS AN ESTABLISHED CREDIT RATING IN OTHER INTERNATIONAL CAPITAL MARKETS. KOREA CANNOT MEET THAT CRITERION SO IT WILL NOT BE GIVEN PERMISSION TO SELL YEN BONDS IN THE TOKYO MARKET. OTHER SOUTHEAST ASIAN COUNTRIES (PHILIPPINES AND SINGAPORE) ARE ALSO INTERESTED IN FLOATING BONDS IN JAPAN. ANOTHER REASON FOR CAUTION IN PERMITTING FOREIGN ACCESS TO THE JAPANESE CAPITAL MARKET IS THE LARGE VOLUME OF BORROWING THAT THE GOJ WILL HAVE TO UNDERTAKE TO FINANCE ITS BUDGET DEFICIT AND ITS "DIFFICULT" BALANCE OF PAYMENTS POSITION. JAPANESE BANKS HAVE BEEN TOLD NOT TO LEND "LONG" BY BORROWING "SHORT" IN FOREIGN MARKETS. SO FAR, FINLAND HAS FLOATED ONE ISSUE AND NEW ZEALAND WILL FLOAT ONE IN THE NEAR FUTURE. AT PRESENT, THERE ARE SOME 24 OTHER POTENTIAL BORROWERS THAT HAVE APPLIED, INCLUDING THE ADB AND THE WORLD BANK. YOSHIDA SAID THERE ARE SEVERAL ISSUES OF WORLD BANK BONDS THAT WILL MATURE IN NEXT TWO YEARS, SOME OF WHICH MAY BE ROLLED OVER. HOWEVER, HE SPECIFICALLY MENTIONED ONE IBRD ISSUE WHICH ALREADY MATURED BUT THE ADB RATHER THAN THE IBRD WAS GIVEN PERMISSION TO SELL

BONDS TO THE BANK OF JAPAN.  
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